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Higher Food Prices – A Blessing in Disguise For Africa?

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- Higher food prices are likely to stay; emergency aid can only be a short-term solution.
- Making African agriculture a profitable business could turn a food-price curse into a blessing.
- African governments and donors should promote the commercialisation of food crops.

In the face of rising food prices, calls for emergency plans and food aid are becoming louder. Certainly, the desperate situation of poor households requires short-term relief measures; however, handouts are not a viable long-term solution.

Crop failures caused by unfavourable climate conditions, growing demand for processed food and increased production and transport costs induced by higher oil prices will persist. Rising energy needs from emerging economies, such as China and India, alongside subsidies for biofuels have led to increased use of food crops for energy production.

The curse of higher food prices can be turned into a blessing if African agriculture finally becomes a business. The continent is losing out in world agricultural trade. The share of African products in world agricultural imports has actually declined from 5.4 per cent in the mid-1980s to 3.2 per cent in 2006.

The commercialisation of agriculture would provide many opportunities for Africa even though the approach does not seem to sit easily with the notions of poverty reduction and food security. Yet, even countries which are in principle food-secure, such as Tanzania and Ghana, continue to experience food-security problems for two main reasons: the malfunctioning of internal food markets and low productivity.

Food aid, subsidies and export restrictions have not resolved Africa's food-security problems. These measures can only provide short-term emergency relief as long as agricultural productivity remains low. In Africa, yields for cereals, and roots and tubers have stagnated during 1990-2006, while yields in Southeast Asia increased by more than 30 per cent (see Figures 1 and 2).

African agriculture is still dominated by traditional, rain-fed, smallholder production systems with little acreage and limited intensification. Zambia is a case in point: less than 15 per cent of its arable land is under cultivation, only 10 per cent of the land area suitable for irrigation is being irrigated, and 40 per cent of rural households are solely engaged in subsistence agriculture.

Figure 1. **Cereals Yields**
(kg/ha, 1990-2006)

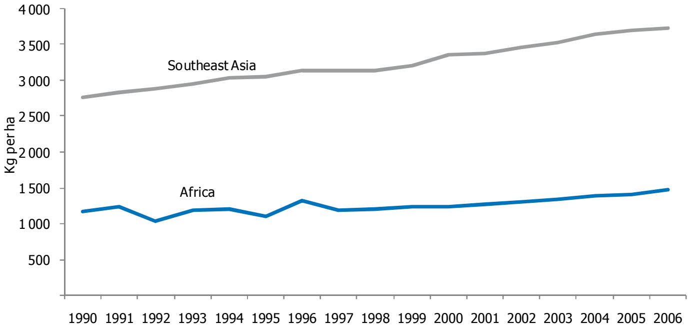
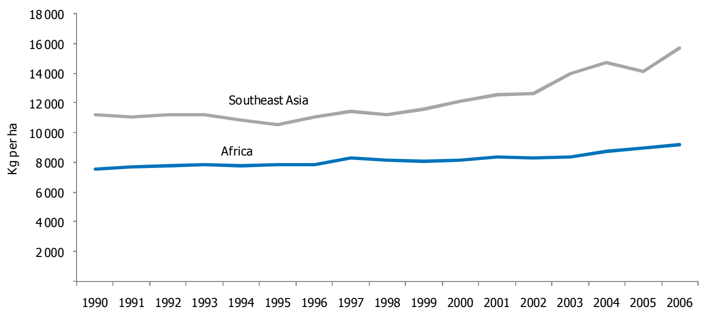


Figure 2. **Roots and Tubers Yields**



Source: OECD Development Centre, 2008.

Stagnating productivity and the pre-dominance of subsistence agriculture represent the current sorry state of agriculture but also indicate unexploited agricultural potential and commercial opportunities. Governments and donors should aim their interventions at unleashing this potential.

OECD Development Centre research shows that donor projects, which adopted a commercial approach, produced positive results in the horticultural sectors in Ghana, Senegal and to a lesser extent in Mali and Zambia. Contract farming (e.g. outgrower schemes) has proved to be an effective mechanism for involving smallholder farmers in export-crop production and to achieve economies of scale. Donor support has been crucial in facilitating the establishment of those schemes, especially in Senegal.

Building on the lessons learned from successful commercialisation programmes in the export sector, donors should now turn their attention to the commercial potential of food crops. Rising local and regional demand in Africa provides ample opportunities to expand production and to develop food-processing industries.

The current food-price crisis could become a blessing if it leads to a stronger focus on how to make food markets work. Poor transport infrastructure, lack of market information and unpredictable government interventions currently hinder commercial development. This is why, for example, in Tanzania surplus regions prefer to export their produce to neighbouring countries, rather to other regions of their own.

Yet, while commercialisation programmes for export crops are quite common, comparable examples for food crops are rare. So far, donors and governments have focused too much on production, leaving aside market linkages and institutional capacity building. Admittedly the design of such programmes for food crops is more challenging; however, the potential impact on poverty reduction and economic development should not be underestimated.

Increasing the productivity of food crops will require sizeable investments in irrigation, storage and transport infrastructure as well as improved access to inputs (such as fertilisers, seeds, planting materials and credit) and markets.

Moreover, the observed improvements in agricultural productivity in Southeast Asia have been closely linked to increased public spending on agricultural research and development (R&D) and better extension services. In Africa, public R&D spending has been declining over the last three decades. This trend should be reversed and extension services need to be improved to ensure that farmers obtain the full benefit from R&D results.

Seeing agriculture as a business also requires a broadening of the scope of the actors to be involved. Donors and governments need to move beyond working only with small-scale producers to alleviate poverty. Traders, wholesalers and exporters, who may not be considered poor themselves, are important intermediaries in the agro-food value chain.

Last but not least, commercialising food-crop production also presents the opportunity for Africa to re-gain ground in world agricultural trade. According to recent OECD Development Centre research, large European agro-food companies are already examining the investment possibilities in African agriculture to ensure future supplies for their domestic markets.

The chance of combining business with agricultural development should not be missed as in the long-term a vibrant private sector should be the motor of development.

Further reading:

OECD Development Centre (2008), *Business for Development: Promoting Commercial Agriculture in Africa*, OECD Development Centre, Paris.

Five detailed case studies (Ghana, Mali, Senegal, Tanzania and Zambia) are available under: www.oecd.org/dev/publications/businessfordevelopment.

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